

The Ha

Trieste

The gateway to the old Austro-Hungarian Empire is ripe for a renaissance.

William Scobie
reports

'LOOK at the map,' said Italy's exuberant Foreign Minister Gianni de Michelis on a recent visit to Trieste. 'Munich and Vienna are both closer to us than Rome. Budapest and Prague are not much farther. The Yugoslav border is just four miles away.'

'Trieste is the front door to Central Europe. Now that Communism has collapsed, it will be a great city, a great port again. It is destiny, my friend.'

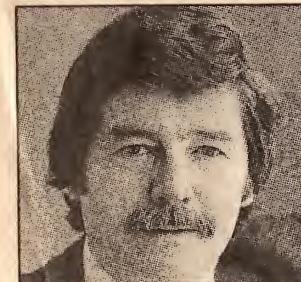
Destiny has not dealt too kindly with Trieste since 1918, when World War I redrew national boundaries and put paid to the great Austro-Hungarian Empire, for which this polyglot, cosmopolitan city — the empire's third largest after Vienna — was

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In My View



William Keegan

THE CONSEQUENCES of the peace which followed the First World War included the foundation of Iraq, and demands for reparations from Germany. The latter contributed to the political upheaval which led to the Second World War. Mistaken economic policies also played their part in the German social disturbances which led to the rise of Hitler.

The Second World War brought full employment, among other things, to Europe. But with all available resources devoted to the war effort, the years 1939-45 were ones of great economic hardship. It took many years to rebuild the

peace-time economy we now take for granted, and the period 1945-51 was subsequently dubbed 'the age of austerity'. British forces were still active in countries such as that which was then called Palestine. And a commitment dating from World War One was fulfilled: the foundation of the state of Israel.

There were no penal financial reparations; indeed, there was Marshall Aid, and a clutch of economic institutions and policies designed in the hope (not total confidence) of making economic depression a thing of the past. The developed world embarked upon an unprecedented era of economic growth and prosperity — truly a golden age.

The Korean War in 1950-53 did not absorb anything remotely like the economic resources needed in the Second World War, although it caused a temporary surge in commodity prices. During the 1950s the foundations of the European Economic Community were laid — one of the main purposes being to bind West Germany within Europe and prevent war in Europe from ever occurring again (the 'war to end war' having proved insufficient for this purpose).

Britain encouraged the EEC, but did not join it, harbouring delusions about the form the 'end of Empire' would take. The 1956 Suez expedition was a very short campaign, effectively aborted when the US government refused to prop up the pound.

The Vietnam War, which dominated the second half of the 1960s and the early 1970s, was financed by the US in an inflationary way: the consequent strains on the dollar contributed to the breakdown of one part of the post-war economic framework — the Bretton Woods system of fixed exchange rates. We entered an era of 'benign neglect'.

The 1970s brought the first oil crisis. By sharply raising oil prices the Opec cartel removed another of the backcloths to the economic 'golden age' — the assumption that energy was cheap, plentiful and could be taken for granted. The price of oil had hardly changed at all in the 1950s and 1960s. The 1973-74 quintupling of oil prices enriched Arab countries such as Saudi Arabia, Iraq and Kuwait (but not, of course, Israel, which was all the time kept going by a kind of perpetual Marshall Aid); and the

BUSINESS

en war and remembrance

Western financial system generously offered its services, at a price, to the sheikdoms which had more money gushing out of the sand than they knew what to do with.

The Western financial system accepted the vast deposits of oil wealth, and lent them (without too much heed to the creditworthiness of the borrowers, or to the ultimate economic purpose

was awash with oil and benefited from the actions of Opec. Indeed, the Politburo and the KGB saw in their oil riches a way of postponing the evil day of conceding that the Communist economic system was a disaster, and failing to deliver the goods.

There were two recessions in Western industrial countries which tarnished the postwar

The end of the Cold War brought the prospect of the 'peace dividend'. It also saw the US relax its guard and send signals to the dictator of one oil-producing country that it did not care if he had designs on another oil-producing country.

of the loans) to countries which became known in the jargon as 'oil importing developing countries'. In this endeavour they were actively encouraged by Western governments, which saw the 'recycling' process as a necessary precaution to avert a possible slump, or even breakdown of the international trading system.

They did not need to lend these funds to the USSR, which

record growth period. One was in the mid-1970s, and one in the early 1980s. Both were sparked off by the reaction of policy makers to the inflationary surge which had been induced by the oil-price increases.

The Cold War was being waged throughout these post-war years, and one manifestation of this was the way both East and West would ply client states with arms. The produc-

tion and sale of arms was a boost to the economies of 'capitalists' and 'communists' alike. But President Reagan, himself to some extent a political product of the California arms machine, escalated the potential cost of the Cold War so rapidly that the Kremlin acknowledged it could no longer compete, and Mikhail Gorbachov unveiled *glasnost* and *perestroika*.

The ending of the Cold War brought the prospect of the 'peace dividend'. Unfortunately, it also saw a jubilant US administration relax its guard, and send signals to a Middle East dictator of one oil-producing country that it did not care if he had designs on a neighbouring oil-producing country. But he had designs. The world knows only too well what they were. The jubilant US administration decided it did care. And here we are.

Among the many issues for the future raised by the Kuwait crisis are the wisdom of competitive arms sales, let alone of making nuclear capacity available to anyone. During the period of 'phony war' the most obvious economic impact has been, as in the case of Korea, on commodity prices — in this case the price of oil. The rise in the

oil price was sparked off even before the invasion of Kuwait, by Iraqi influence within Opec.

After an initial doubling, the oil price fell back during the closing months of last year: stocks were, and are plentiful, and many consuming countries — including the US and UK — were moving into recession, and are now well and truly there. This has reduced demand for oil and helps to explain why there was less panic in the oil markets last week than one might have expected. But, clearly, certain developments in a war could drive the price much higher, and dent the recent mood almost of complacency in the markets.

The combination of the costs of the Gulf operation and the automatic impact of recession are already making nonsense of the great 'budget deal' between the White House and the US Congress last October. The US deficit now appears to be approaching \$400 billion (some 8 per cent of gross domestic product).

Even the pristine British government is now hinting that in spite of the budgetary boost to oil revenues, the proud days of budget surpluses are probably over.

This will be another inhibition on Government economic policy at a time when the high interest and exchange rate policy seems to be deepening the recession by the hour. Both the Prime Minister, John Major, and Chancellor Norman Lamont are digging themselves in over exchange rate policy in a way reminiscent of the 'no devaluation' pledges of the Labour government of the 1960s.

Yet as Roger Bootle of Midland Montagu points out: 'In real terms sterling, depending on which measure is used, may now be only slightly lower than the very high levels of 1980.' That, as the then President of the Bundesbank pointed out, was one of the most massive overvaluations of a currency in modern history.

Despite the masochistic attitude on the exchange rate displayed by the Confederation of British Industry at last week's meeting of the National Economic Development Council, more and more people in the City seem to agree with Sir Alan Walters that the present exchange rate is not sustainable.

The Treasury and the Bank of England are determined to prove that it is.

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THURSDAY, JANUARY 1

● Tribunal or trial? ● Allies wi

Saddam war crimes dossier grows daily

By ROY TOWERS, Foreign Editor,
and PATRICK BROGAN in Washington

IRAQI war crimes are being documented by special teams of military experts in London and could lead to the appearance of Saddam Hussein in the dock at a war crimes trial.

First for Scotland
HERALD
POLL TAX
DILEMMA
CONCERN about the
possibility of poll tax
recently

The growing outrage at the Iraqis' treatment of downed airmen, who have been paraded in front of cameras and coerced into statements, and who are now being used as human shields at strategic sites in Iraq, has prompted coalition allies to begin to document every known contravention of the Geneva Convention.

The mechanism is already in place for war crimes

and attack its weapons and the troops themselves. He said that if necessary, the high command would launch a ground assault to finish the job, but would certainly not do so until the Iraqis' resistance had been greatly weakened by the air attack. He predicted that allied ground forces would enjoy the same superiority over Iraqi troops that their air forces enjoy over the Iraqi air force.

Gen. Powell was giving a news conference with the Secretary of Defence, Mr Richard Cheney. His spokesmen had promised air photographs showing bomb damage. The general, instead, offered drawings of purported damage to unidentified sites.

The drawings came in pairs, before and after. In the first, there were buildings, bunkers, and a complete air base. In the second, ruins. The air base was one that had been

began more than a week ago. Two raiders were shot down by a Saudi fighter in the first double kill of the conflict.

Allied forces are now on alert for signs that the Iraqis may try overnight emergency repairs to key airfields to allow them to mount a mass attack, hoping to saturate defences in Saudi Arabia and deliver bombing strikes on troops and oilfields.

A military spokesman said: "Iraqi behaviour is following a pattern set by the Soviet advisers who trained most of their army. It is also the method

with chemical and nerve gases from the air and mixing chemical munitions with conventional artillery shells during bombardments."

Meanwhile, it has been revealed that allied pilots are being shot down

Western computers are known to have been employed in directing the fire of missile and anti-aircraft gun batteries which, so far, downed 20 allied fighter bombers, including five British Tornados.

THE Desert Rats will shortly be united and ready for action somewhere on the Kuwaiti border.

So far only the 7th Armoured Brigade is in position and ready for combat. But last night, Brigadier Christopher Hammerbeck of the 4th Armoured said his own forces would

soon move to join their colleagues. That makes both the Desert Rat brigades ready and looking to take on the Iraqi forces.

The Brigadier said his men were keen to get on, get the job done, and get home.

Clark condemns EC's 'feeble' war response

DEFENCE Minister Alan Clark last night castigated Britain's European partners for their "feeble" response to the war.

Mr Clark, Minister of State for defence procurement, said bluntly: "At the first major test, they all ran for the cellars."

His remarks, in an interview on the BBC South and West programme, Strangers' Gallery, left listeners with the impression that he was accusing other European countries of something approaching cowardice.

the allies go beyond the terms of the UN resolutions in their pursuit of Saddam Hussein and their destruction of his war machine.

These were the strongest words yet by a Government Minister on this aspect of the war and already Labour has said he should be "dealt with" by Defence Secretary Tom King.

Asked whether he thought Iraq's war machine should be totally smashed, Mr Clark said: "Yes, I do. The way that Saddam Hussein has behaved in recent days is completely reckless."

He pointed to the indiscriminate Scud attacks on Israel and the "monstrous" treatment of prisoners of war.

"We do not know what they are being subjected to, parading people in cages and

chaining them to military targets."

Asked whether this would be going beyond the terms of the UN resolutions, Mr Clark said: "I don't think so. There has been a lot of legal argument about the meaning of the UN resolutions."

Mr Clark was then asked about pursuing the withdrawing Iraqis into Iraq and whether he considered that might breach the resolutions.

He replied: "The terms of the resolution are quite clear."

Common sense dictates that we should clip Saddam Hussein's wings."

Shadow Defence Secretary Martin O'Neill said: "It is quite clear why Alan Clark has been given no major role in the handling of Operation Desert Storm.

"His remarks are way out of line with anything that other defence Ministers or members of the Government have said.

"I would imagine that Tom King, the Defence Secretary, would wish to deal with him accordingly."

□ Germany wants Israel to become the fourth so-called "frontline" state to get European Community aid to make up for Gulf War costs, EC sources in Brussels said yesterday. The plan, under which Israel would receive aid worth \$210m, was circulated at talks between officials the 12 EC countries, the sources said.

How the Kuwaiti flag

SHAWLANDS CROSS
CHURCH
11.15am and 6.30pm
REV. ALASTAIR M.
SANDERSON, B.A., L.Th.

The conflict so far, day by day

Sunday, January 21.

America, determined to keep Israel out of the war, to send Patriot missile batteries and operators to counter Scud attacks on Jewish homeland. US Deputy Secretary of State Lawrence Eagleburger arrives in Jerusalem.

US Air [redacted] starts bombing raids from [redacted] bases in [redacted]

last quite a few weeks." Praises Israel for restraint.

Not a good day for Britain's strike force. Two Tornados destroyed, bringing total to four. Allied aircraft lost now 15 with 3000 missions accomplished.

Dahran and Riyadh attacked by night. Patriots intercept incoming Scuds.

First reports that captured airmen have been paraded before Iraqi television.

Monday, January 21.

Britain outraged at treatment of captured pilots in Iraq and

Saddam's threat to use them as "human shields." Iraqi ambassador summoned to FO and reminded forcefully of terms of Geneva Convention.

Bombing continues with massive raids on key port of Basra. Allied sorties top 8000 but military admit to being "nowhere near" destroying all Scud launchers. Most enemy airfields still func-

Saddam rejects [redacted] peace. Darkness and Scuds attack Saudi Arabia. Patriot proves itself again.

House of Commons vote by 563 to 34 to support British troops in Gulf.

Tuesday, January 22.

US Navy pilot rescued in daring mission behind enemy lines by helicopter crew. Iraq, parades another two allied airmen on television.

Iraq blows up Kuwaiti oil wells near Saudi border.

Three die and 100 injured as Scud

missile destroys flats in residential area of Tel Aviv. What happened to the Patriots? Will pressure to retaliate be irresistible?

Wednesday, January 23.

Israel says it will retaliate in own good time, but seems unready to fall into dictator's trap.

Allied forces sink Iraqi tanker said to be an "observation post."

complete 12000 sorties.

British politicians grumble about "non-combatant" allies not providing enough money to finance war. Germany and Japan are main targets. Home Office expels 14 Iraqis.

Patriot intercepts and destroys Scud over Israel. Helps maintain Israeli restraint.

First Scot, Squadron Leader Gary Lennox, from Slamanan, reported missing in action after his Tornado fails to return.

Thursday, January 24.

Second week. France sends bombers on first raid inside Iraq. Saddam reported by Baghdad

Radio to have visited front-line troops.

Another US aircraft is shot down but pilot is rescued by helicopter. Two Iraqi aircraft shot down, third turns and runs after abortive Israeli attack on Alid ships, including British frigate. Navy kills three Iraqis and captures 12 in raid on enemy vessel.

Britain to send half a squadron of vintage Buccaneer bombers from Lossiemouth to the Gulf.

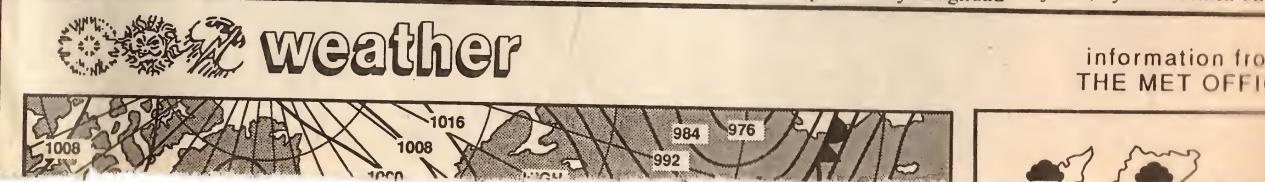
A quiet night for Scuds.

Friday January 25.

US forces re-take first piece of Kuwaiti territory — a tiny island — and kill three Iraqi soldiers and capture many more.

Terrorist bombs explode at British and US banks and near home of French consul in Athens. Soviets claim Saddam orders execution of air force command after heavy losses.

Iraq fires salvo of missiles at Israel and Saudi. One killed, injured in Israel. The first defences occur on Saudi soil, and 30 injured, by Scud attack on Riyadh.



information from
THE MET OFFICE

'Pupils 'talked to' after attending anti-war rally

By ELIZABETH BUIE

STRATHCLYDE Region's education department last night claimed that only four pupils carrying Socialist Worker and Youth Against the War Movement placards took part in Thursday's anti-war rally in Glasgow.

A spokesman for the region said that investigations had revealed that only Lourdes Secondary School had been given leaflets by the organisations.

"This was a one-off at Lourdes and involved only a very small number out of around 1000 pupils," he said.

The pupils who took part in the rally — two in second year and two in fourth year — yesterday were "talked to" at school, he said.

"The headmaster, Mr Raymond Healy, was talking to them to ascertain why they were not in school," said an education department spokesman. "On Wednesday afternoon, he issued a statement over the school tannoy explaining that anyone who did not attend classes

without good reason would be deemed to be marked absent.

"This followed leafletting outside the school."

He explained that the region's policy was to take action against leafletting if it was of a racist nature, for instance, or where there was a problem of access to the school.

He added: "In a case like this where a group is trying to influence children to attend a meeting, we get the school to deal with it and advise the children they are not entitled to attend a meeting during school hours."

The region wanted pupils to discuss the war and encouraged them to do so in modern studies and peace education classes, but would be concerned if children were encouraged to miss classes.

A spokesman for the Socialist Workers' Party claimed, however, that members of that party and the West of Scotland National Union of Students had leafleted a number of schools in the Glasgow area.

"We will continue to leaflet as part

of an on-going campaign. We reckon that about 100 or so pupils took part in the march," he said.

He said some of the SWP's reasons for leafletting pupils were:

□ That students and teachers would suffer massive education cuts as spending on the Gulf War increased;

□ This "bloody war" was encouraging racism in society and in schools as the media portrayed the conflict as one between Christians and Moslems.

□ The "incredible level of censorship" had meant there had been no debate schools to discuss the war.

Education convener, Councillor Ian Davidson, said he was unhappy at any attempt to make pupils play truant.

"If members of the SWP had spent more time in school, they might be able to distinguish between 100 and four," he said.

The regional council had made clear its wish to promote a ceasefire and negotiated settlement of the war, he said.

Asian 'bombed Christians'

How the West can win the oil war

What George Bush wants from a postwar world oil order is a lid on the price. Opec countries want the means to develop reserves. What is needed is a bold new deal, **Peter Koenig** reports

OECD PHOTO



DELIVERING his State of the Union message to the American people last week, George Bush spoke of the Gulf war as a "defining hour", sketched out the "new world order" he wants to emerge from the conflict, and declared the West was "on course" for victory.

President Bush did not mention oil. Since allied forces in the Gulf are fighting in part, at least, to guarantee the supply of oil to the industrial world, this could be construed as an omission. It is not that Mr Bush is innocent about oil. On the eve of his inauguration, he told *The New York Times*: "I put it this way. They got a president of the United States that came out of the oil and gas industry that

At first the oil world, including Opec, responded almost unanimously to minimise the impact of Saddam's aggression. Meeting in Vienna on 28 August, 11 of Opec's 13 members agreed to suspend quotas and increase production, to offset the 4.5m barrels per day of oil stripped from world markets by the embargo on Iraq and Kuwait.

Now that the real war has begun, however, the first excitement has passed, and the oil world has begun looking ahead to the end of the conflict, cracks in the unified front against

knows it and knows it well."

As Daniel Yergin reports in his new history of oil, *The Prize*, Mr Bush graduated from Yale University in 1948, packed up his red Studebaker and headed south, first to Odessa, then Midland, Texas. There, before he turned 30, he was running his own oil company. Because the film *Viva Zapata!*, starring Marlon Brando as the Mexican revolutionary, was playing in Mid-

Now that the real war has begun and the oil world is looking ahead to the end of the conflict, cracks in the unified front against Saddam are appearing

land when Mr Bush started his company, he named it after Emiliano Zapata.

In the Fifties Mr Bush made a lot of money through Zapata Oil, adding to the family fortune accumulated by his father, who had been a partner of the Wall Street bank Brown Brothers Harriman. Perhaps Mr Bush did not mention oil in his speech because he feared critics might personalise the war: paint it as a conflict between a rich American petro-politician and a cunning up-from-the-street Arab.

Or perhaps Mr Bush merely wanted to keep things simple for the American people. There is confusion over war aims. Are the allied forces fighting to liberate Kuwait or to liberate Kuwait and destroy Saddam Hussein? Loading further complexity on to this question might sap support for the war.

Still, Western soldiers are now dying in part, at least, for oil. The public may eventually call Mr Bush and other allied leaders to account for what happens to the price of oil in the wake of these deaths. He and other leaders might gain support, as well as honour, by overcoming their reticence on the subject of oil.

It is, after all, a real economic interest. The West is less dependent on oil than it was in

Geoffrey Chipperfield and Helga Steeg of the IEA: attacked by Opec for selling off stocks

1973, when the first oil shock struck. But with the Anglo-Saxon world already in recession, high oil prices would be the difference between downturn and slump.

And so far, anyway, the news on the oil front is good. What Washington did not want when it started bombing Bagdad was a headline shrieking, "War starts! Oil soars!" Washington got what it wanted. Within two hours of the first strike on Bagdad, oil traders concluded Saddam Hussein could not disrupt the flow of Saudi oil. In the third hour, Mr Bush went on US television and announced plans for a sale of oil from US strategic reserves.

"The announcement of the release of stocks had a big impact on the market, which was already glutted," Charles Sands, a vice-president of Crescent International Corporation, which produces oil in the Gulf off the United Arab Emirates, told *The Wall Street Journal*.

So dramatically did the price of oil drop, indeed, that one oil analyst smelled a rat. "In

the first two hours after the bombing, the price of oil rose \$5," he said. "Then it turned around and fell almost \$20. Why? Trading at that hour of the day is thin. Could Washington have had a quiet word with someone in the market, and explained that it might be wise to sell?"

The oil price has stayed down. On Friday the price of Brent crude for delivery in March closed at \$20.125 on London's International Petroleum Exchange — only fractionally higher than its price before Saddam invaded Kuwait on 2 August.

Last week the International Energy Agency (IEA), the Paris-based organisation of 21 industrial countries that co-ordinates responses to Arab oil power, affirmed its eve-of-war decision to sell up to 2 million barrels a day of government stocks.

Pundits are now clearing their throats to recommend that the West establish a new world oil order to complement all the other new orders meant to come out of the conflict.

If the West has won Round 1 of the oil war, however, its success in coming rounds is no sure thing.

Saddam are appearing.

The coalition forces appear satisfied with the state of the oil war. Last week the US Energy Department announced that it was minimising its intervention in oil markets, allocating only half of the 33.75m barrels of oil it offered to private companies the first night of the war.

There are opposing factions in Washington when it comes to oil war strategy. One, led by John Sununu, White House chief of staff,

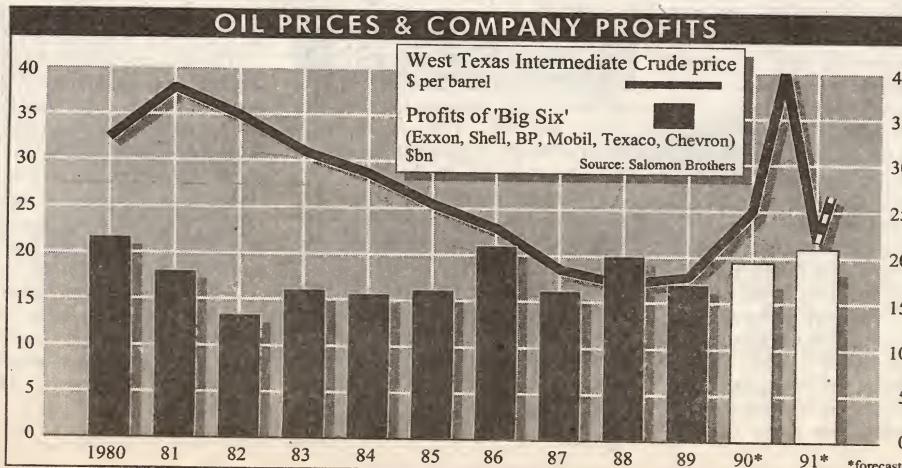
'The oil companies are uptight about security. They're not committing a lot of capital . . . Otherwise, it's business as usual'

wants to minimise Washington's intervention in the oil markets. The other, led by James Watkins, the energy secretary, appears interested in getting the US to function as a central bank for oil — smoothing out price fluctuations the way the Bank of England smooths out currency fluctuations. For now, at least, the minimalists have the upper hand.

Saudi Arabia, meanwhile, continues pumping oil at near-record levels — between 8 million and 8.5 million barrels per day currently, up from 5.3 million barrels per day in July. Iran is happy to exploit the crisis to improve its access to world oil markets. Washington is quietly granting waivers to oil companies seeking to import Iranian oil into the US, despite a formal embargo.

The oil companies themselves, with their long experience in dealing with violent geopolitical upheavals, are hunkered down for the storm. "The companies are uptight about security," said an oil consultant. "They're not committing a lot of capital. They're keeping as correct business relations as they can with all sides. Otherwise, it's business as usual."

Last week a grenade damaged British Petroleum's office in Athens. An oilman reported



Western compounds in the Gulf with increasing frequency.

But company executives say they are ready to withstand fluctuations in the price of oil. "We really ride with them," Sir Peter Holmes, Shell Transport and Trading's chairman, said in an interview on the news channel CNN. "We can't do much about them."

Poorer Opec members, however, are uneasy about the way the West is waging the oil war. Sadek Boussena, Opec president and industry minister of Algeria — where there have been huge street demonstrations celebrating Saddam's incursion into the Saudi border town of Khafji — last week accused the West of engineering a collapse in the oil price. "It has to be said that the IEA, which had until [fighting started] refused to take any step to stabilise the oil market, resolutely took this action from the perspective of war," he said.

Poorer Opec members, indeed, are begin-

Washington's *realpolitik* could misfire. The US could come to be seen as increasingly willing to use force to support its cheap oil habit

ning to worry about what the West means when it talks of a new world oil order.

Publicly, discussion of this order has been framed in the blandest of terms. "With one swift stroke Iraqi President Saddam Hussein's takeover of Kuwait seems to have overturned the rules of international oil," Edward Morse, former US energy official and the publisher of *Petroleum Intelligence Weekly*, wrote in the winter issue of *Foreign Affairs*. The Gulf crisis, he continued, has "finally brought to a head the need to rethink the best institutional format for regulating oil affairs".

Privately, however, oilmen close to the Bush administration say Washington is thinking about a new world oil order in sharper terms. "The Bush people have a golden scenario," said one. "The coalition defeats Saddam. Saudi Arabia emerges dominant in the region and Opec. King Fahd abdicates his throne for reasons of health. A new face bolsters the royal family's legitimacy in the Arab world, offsetting the threat of a Muslim backlash. With 25 per cent of the world's oil reserves, Saudi Arabia sees to it that oil prices stay around \$20 a



Saddam sends the oil market rules up in smoke: an oil storage facility ablaze in the Gulf

scenario writers. Nearly 6 percent of the world's proven reserves are in Siberia and around the Caspian Sea. But civil strife and economic exhaustion led to declines in Soviet production of 10 per cent in 1989 and 1990.

The scenario writers see the Soviet Union playing the same role in the Nineties as the North Sea and Alaska's North Slope played in the Seventies. The Soviet Union becomes the new oil player keeping a lid on Opec's power.

The threat is that Washington's *realpolitik* could misfire. Imposing its new world oil order, the US could come to be seen as a country increasingly willing to use force to support its cheap oil habit. The bet that the Soviet Union will open up to international oil companies is a bet that the Soviet Union is not heading into a new era of closed borders.

If the West is to gain energy security in the Nineties, oilmen say, it must rise above the Gulf crisis to grapple with the basics of the global oil business.

Demand for oil is likely to outstrip supply in the Nineties, they say. This is because the oil business is notoriously one of booms and busts. From the Fifties until the early Eighties there was a boom. In 1986 there was a bust. Rising oil prices drew in enough new oil players to create a glut. Both the oil industry and Opec responded by cutting investment. As a result both — but Opec's nationalised oil companies in particular — are now run down.

Only in the months leading up to the Gulf crisis had this latest evolution in the oil world seemed to run its course. Low prices were spurring increased demand for oil. Increased demand was raising the prospect of scarcity. Scarcity equals higher prices. Talk in the oil world was no longer about how to survive the bust, but when the next boom would come.

BP said the early Nineties. Shell said the mid-Nineties. Rich Opec countries like Saudi Arabia and Kuwait said it should come slowly. Poor ones like Iraq said it should come fast.

"In terms of oil," said Robert Mabro, head of the Oxford Institute of Energy Studies, "the

Gulf conflict has simply speeded up and complicated the transition (from bust to boom)."

What Western governments should do, Mr Mabro and other analysts say, is manage this situation to foster stability in global markets.

Opec is where most of the world's oil is. Of the world's trillion barrels of proven reserves, 66 per cent were in Opec territory in 1980; 77 were in Opec territory in 1990; 80 per cent are forecast to be in Opec territory in 2000.

But Opec's nationalised oil companies are too poor to develop their reserves on their own. Speaking in Houston last year, Dr Subroto, the Indonesian secretary-general of Opec, conceded that Opec countries would need \$60bn by 1995 to increase their production by a million barrels of oil per day.

The oil industry is now probing for formulas under which it would trade access to Western markets, technology and capital for more secure and more profitable access to Opec crude. In 1988 Saudi Aramco did a joint venture with Texaco, creating Star Enterprise to sell Saudi oil in the West. Venezuela, whose president,

Opec fears Washington is using the Gulf war as a laboratory for manipulating the spot and futures markets for oil, to get the prices it wants

Carlos Andres Perez, called for a conference of oil producers and consumers in October, is actively entering into similar joint ventures.

But if co-operation between the oil industry and Opec is to work, consumer governments must get in on the act, too.

Opec fears that Washington is using the Gulf war as a laboratory for manipulating the spot and futures markets for oil, to get the prices it wants. The West could defuse this fear by moving to put the oil markets under joint Western and Opec regulation.

Beyond this, Opec fears that an America emerging victorious in the Gulf will be in no mood to negotiate, and will simply push for a new world oil order on its own terms.

Mr Bush could defuse this fear by opening a dialogue with Opec. "The quest for oil market stability is akin to the quest for the Holy Grail," remarked James Schlesinger, the former US Energy Secretary, in October. "The objective is regularly subordinated to some nation's political or military objective."

